CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

Mercantile Stores Company, Inc.

Annual Report

Twelve Months Ended

January 31st

1958

MERCANTILE STORES COMPANY, INC.

LIST OF OUR STORES

BACON'S (estab. 1845)
Louisville, Ky.
St. Matthews
Shively
Jeffersonville, Ind.
Elizabethtown (*appliance store*)

CASTNER-KNOTT (estab. 1898)
Nashville, Tenn.
Greenhills
Shelbyville

CREWS-BEGGS (estab. 1888)
Pueblo, Colo.

O. J. DE LENDRECIES (estab. 1879)
Fargo, North Dakota

GAYFER'S (estab. 1879)
Mobile, Ala.
Pensacola, Fla.

GLASS BLOCK (estab. 1887)
Duluth, Minn.

HENNESSY'S (estab. 1885)
Butte, Mont.
Livingston

JONES (estab. 1887)
Kansas City, Mo.
Troost Ave.
Independence
Muskogee, Okla.
Pittsburg, Kans.

JOSLIN'S (estab. 1873)
Denver, Colo.
Englewood
Lakewood
Merchants Park
Aurora
Greeley
Boulder

LAZARUS (estab. 1889)
Wilkes-Barre, Pa.
Pittston
Nanticoke

LION (estab. 1857)
Toledo, Ohio
Westgate
Bowling Green
Fremont

MACDOUGALL'S (estab. 1875)
Seattle, Wash.
Wenatchee
Bellingham
Appliance Stores:
West Seattle
Kirkland
Lake City
Greenwood Ave.
South Seattle

MCALPIN'S (estab. 1852)
Cincinnati, Ohio
Kenwood
Western Hills
Middletown

MONTGOMERY FAIR (estab. 1868)
Montgomery, Ala.
Eastbrook
Opelika

PEOPLES (estab. 1888)
Tacoma, Wash.
Port Angeles
Lakewood
Yakima
South Tacoma

THE RIGHT HOUSE (estab. 1843)
Hamilton, Ontario, Canada
Brantford
Galt

ROOT'S (estab. 1856)
Terre Haute, Ind.
Sullivan
Robinson, Ill.
Paris, Ill.

J. B. WHITE (estab. 1874)
Augusta, Ga.
Columbia, S. C.
Aiken, S. C.

●

Represented in the markets by

MERCANTILE STORES COMPANY, INC. (N. Y.)
(A wholly owned subsidiary company)
128 W. 31st Street, New York, N. Y.

MERCANTILE STORES COMPANY, INC.

BOARD OF DIRECTORS

JOHN E. BIERWIRTH
F. K. BRADLEY
MORGAN A. CASEY
ASHTON HAWKINS
HAROLD W. JOCKERS
F. G. KINGSLEY
GERRISH H. MILLIKEN, JR.
MINOT K. MILLIKEN
ROGER MILLIKEN
GEORGE S. MOORE
RALPH S. STILLMAN

OFFICERS

F. G. KINGSLEY, *Chairman of the Board*
HAROLD W. JOCKERS, *President*
F. K. BRADLEY, *Vice-President*
ABBOTT D. CHURBUCK, *Vice-President*
MORGAN A. CASEY, *Vice-President & Treasurer*
R. NELSON SHAW, *Vice-President*
CHARLES E. STALLINGS, *Vice-President*
FREDERICK H. MESERVE, *Vice-President*
ASHTON HAWKINS, *Secretary*
R. S. KIZER, *Controller*

Stock Transfer Agent
THE NEW YORK TRUST COMPANY
100 Broadway
New York

Registrar of Stock
CITY BANK FARMERS TRUST COMPANY
22 William Street
New York

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARIES

100 West 10th Street,
Wilmington, Delaware
April 15, 1958

To the Stockholders of
Mercantile Stores Company, Inc.:

This is our 39th annual report to stockholders. It covers the fiscal year ended January 31, 1958. In the following pages are the financial statements for the year, together with the report of Arthur Andersen & Co., independent public accountants.

The net profit for the year of $3,995,638 was slightly lower than the preceding year's profit of $4,026,964. Earnings per share of common stock were $2.73 compared with $2.76 for the previous year. Sales for the year aggregated $153,994,341, which represented an increase of 3.5% over the year before.

PROFIT

Profit before income taxes amounted to $8,177,638. This was $90,674 higher than the preceding year. Net profit for the year was $31,326 lower than the preceding year. The tax provision for the earlier year was lower than usual, because of the tax treatment of reserve for bad debts on installment accounts.

The increase in pre-tax profit came from new units opened during the last two years. Profits of comparable stores (operating two full years) were lower than a year ago, due principally to a sales drop of 3% in those comparable stores.

The Company's expense ratio to sales crept up a fraction over last year, in spite of a strong campaign to reduce expenses. In comparable stores we operated with fewer people, but salary rate increases and other rising costs continued.

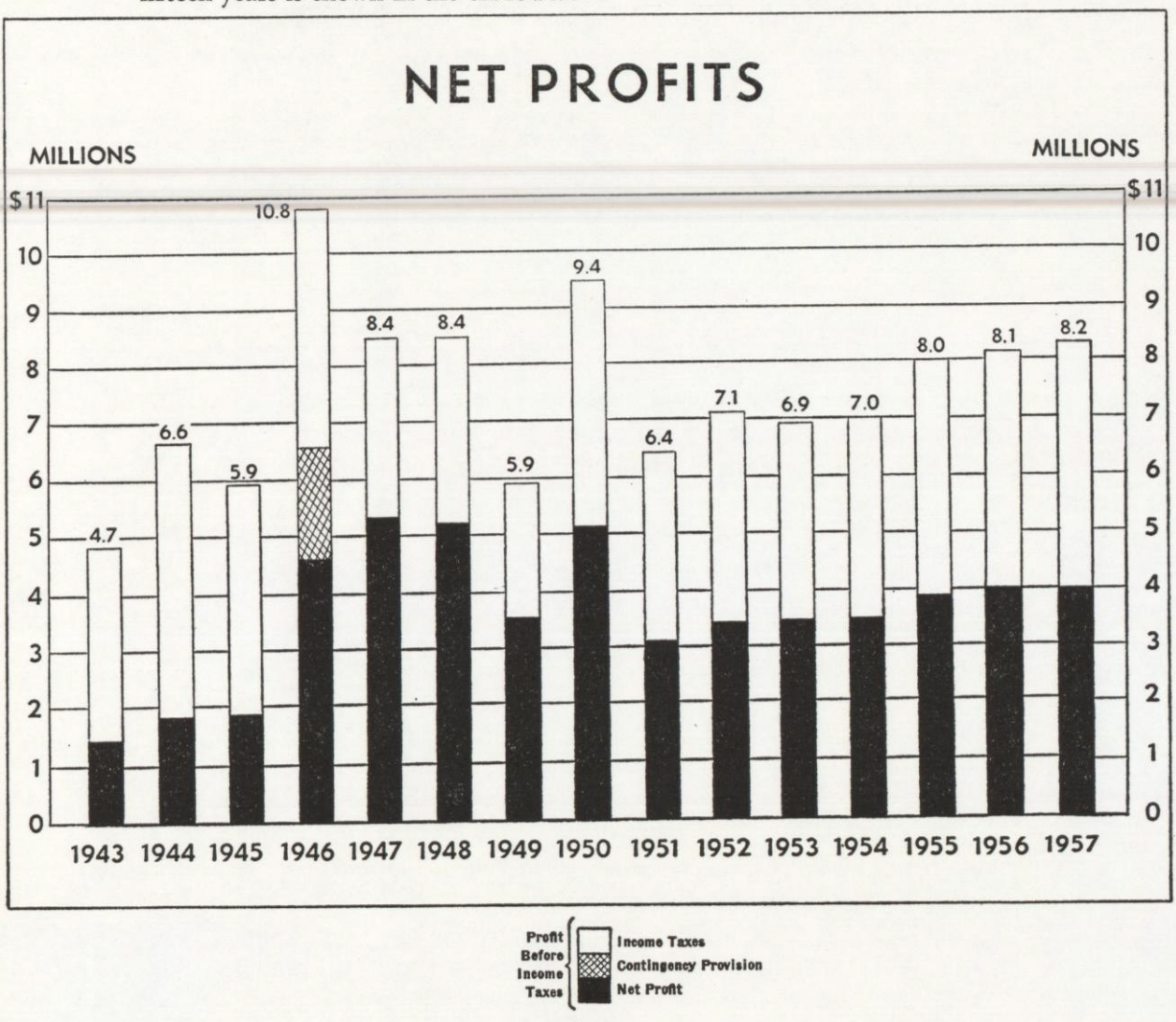
Other factors in the increase in expenses were accelerated depreciation and the Company's Medical Insurance Plan which we established for the benefit of our people. The Company pays a substantial part of the cost of the Plan. Our principal competitors have similar plans. We were at a real disadvantage without it — in that very important part of our business — the hiring of new people.

The maintained margin of gross profit on our sales (meaning the original mark-up less mark downs) was about the same for both years.

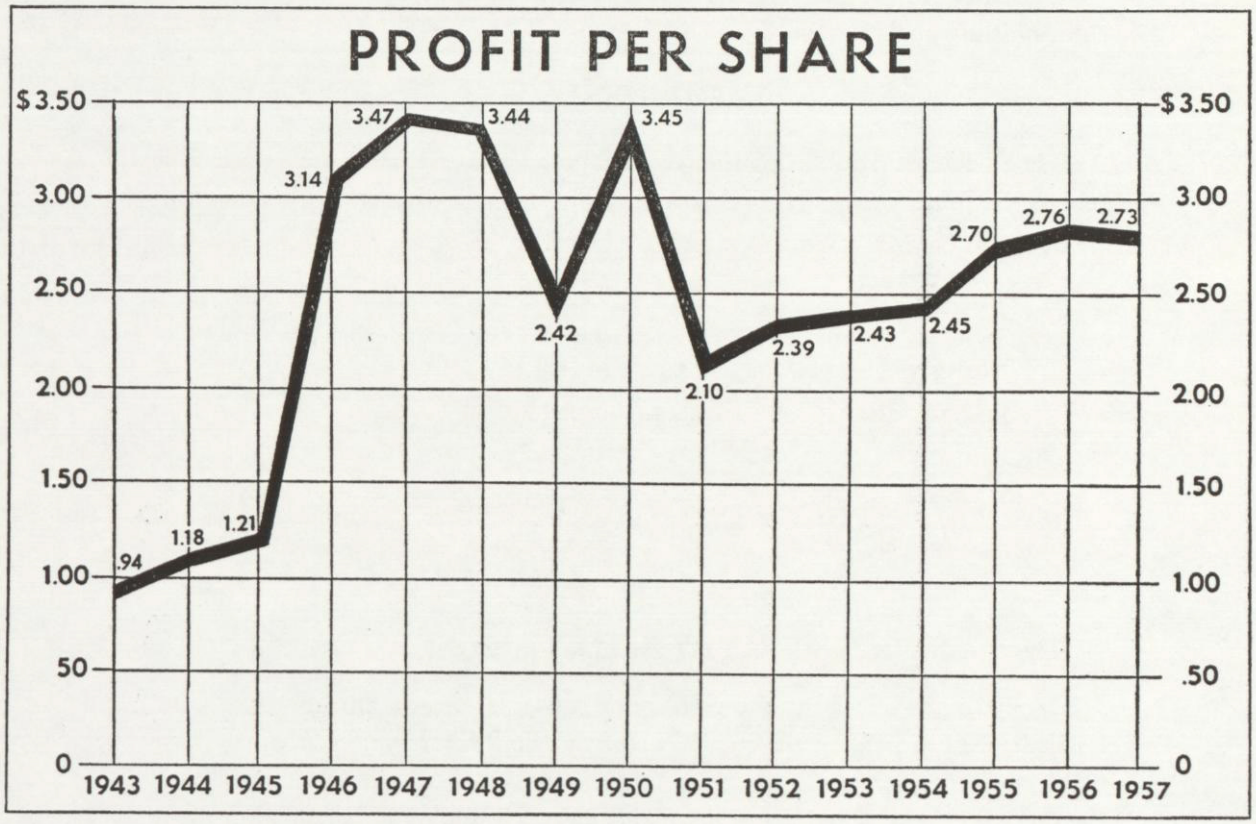
Regarding accelerated depreciation, the Company continued to step up its depreciation by the use of accelerated depreciation. For the year, the extra depreciation above normal or "straight line" depreciation amounted to about $401,000 (a year ago the figure was $246,000).

This extra depreciation was equivalent to about 14 cents in per-share earnings (a year ago the comparable figure was 8 cents). The effect of this extra depreciation on pre-tax profit percentage to sales is also appreciable. The pre-tax profit percentage to sales was 5.3% for the year. If accelerated depreciation had not been charged, that percentage would have been about 5.6%.

The profit before income taxes and the final net profit for each of the last fifteen years is shown in the chart below.



The net profit per share of common stock amounted to $2.73 for the year. The net profit per share of common stock for each of the last fifteen years is shown in the chart below. The per-share amounts for all years are on the basis of the new common stock after the ten for one split-up in 1945.



SALES

For the first time in our history, the sales of our Company crossed the $150,000,000 level. The sales total of $153,944,341 represented an increase of $5,220,884 or 3.5% over the preceding year. Sales of the new stores opened during the past two years accounted for more than the total Company sales increase.

Sales were good in the early part of the year, but the rate of increase declined during the latter part of the year. At the end of the first quarter our sales were 7.8% higher, at the end of the second quarter 5.4% ahead, at the end of the third quarter 4.0% ahead, and for the year — 3.5% ahead. Sales for the one month of December were in excess of twenty-five million dollars — the largest single month in our history.

Of the total Company sales of approximately $154,000,000 for the year, about $106,000,000 (or 69%) were in the 18 major downtown stores, and about $48,000,000 (or 31%) were from the branch stores.

The sales for the past eighteen years are shown in comparative form in the chart on the opposite page.

DIVIDENDS

The dividends paid during the year amounted to $1.65 per share — the same rate as the preceding year. The four regular quarterly dividends plus the year-end extra were as follows:

	Date Paid 1957	Amount Per Share
Quarterly	March 15	$ .35
Quarterly	June 15	.35
Quarterly	September 14	.35
Quarterly	December 14	.35
Year-end Extra	December 27	.25
		$1.65

The five dividends paid in 1957 amounted to $2,411,835.

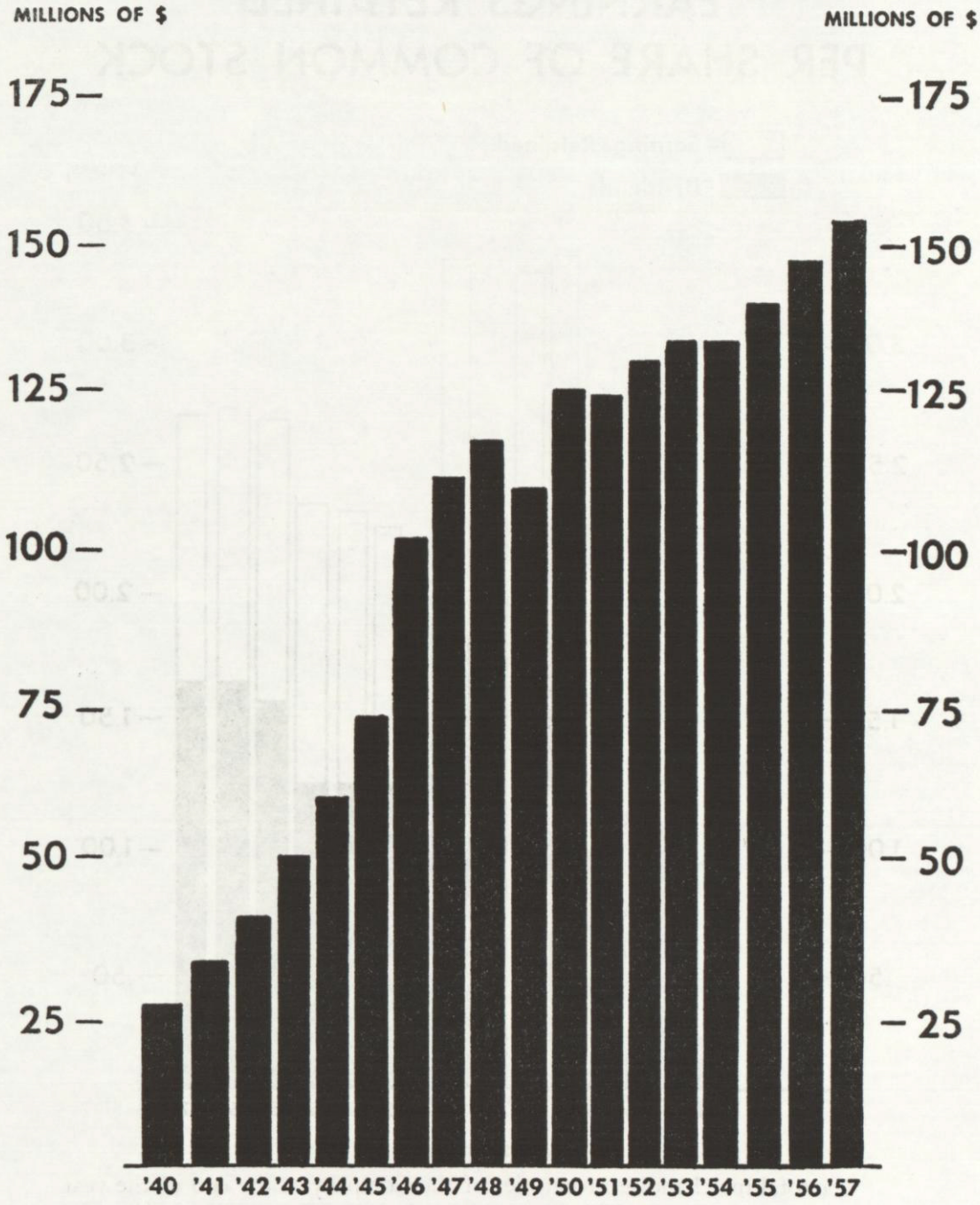
The year just closed is the eighteenth consecutive year during which dividends have been paid on the common stock without interruption. During those eighteen years there never has been a year in which the dividend was less than the preceding year. The rate of dividends has been gradually but steadily rising during those eighteen years as shown in the following summary:

$ .20	for the first two years
.25	for the next four years
1.00	for the next six years
1.25	for the next three years
1.55	for the next year
1.65	for the last two years

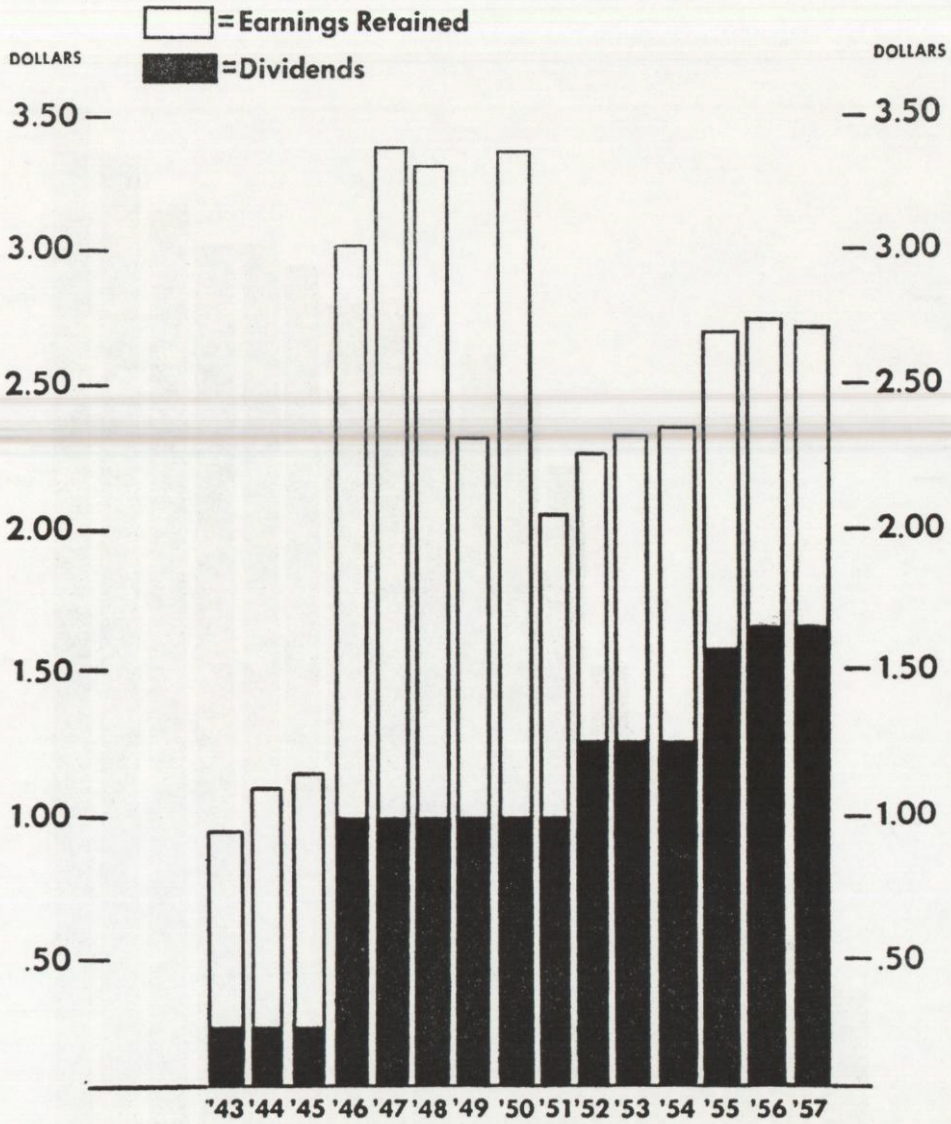
There were 4,396 stockholders in our Company at January 31, 1958.

The chart on page 10 shows the earnings, dividends and earnings retained per share of common stock for the last fifteen years.

SALES DURING PAST 18 YEARS



EARNINGS, DIVIDENDS, AND EARNINGS RETAINED PER SHARE OF COMMON STOCK



INVENTORY

The total merchandise inventories of the Company at the end of the year amounted to $24,511,645. This was $282,970 less than the year before, in spite

of the additional inventories required in the new units opened during the year. Total Company sales for the year were up 3.5% and inventory at end of year was down 1.1%.

EXPANSION

The Company continued its expansion program during the year as follows:

Two new suburban stores were opened.

One suburban store was relocated to larger quarters.

One downtown store was substantially enlarged.

The above expansion will add between six and seven million dollars to the annual volume of the Company, judging from the early sales results of these new units.

A fine new suburban store was opened in August in the Westgate suburban section of Toledo, Ohio. Our store is the dominant store in a new shopping center. The store operates under the Lion name, identified with our Lion store in downtown Toledo, which has been operating for over one hundred years. We purchased land in the shopping center and built our own store. The operating results so far are better than we expected for the first year of operation.

A new store was opened in April in suburban Montgomery, Alabama, located in a new shopping center. We purchased land and built our own building. The store operates under the Montgomery Fair name, identified with our downtown Montgomery Fair store which has been doing business in Montgomery since 1868.

Our Peoples store in downtown Tacoma, Washington, expanded its quarters during the year. An adjacent building was leased which added about 40,000 square feet to our store.

Regarding expansion for the calendar year 1958, one new suburban store is scheduled to open late this fall. It is located in a shopping center in the Prairie Village section of suburban Kansas City, Missouri. We are building our own building on leased land. We would estimate the annual sales potential of this new store to be in the $3,500,000 to $5,500,000 bracket.

Preliminary agreements have been reached for two more new stores in suburban shopping centers (one in Mobile, Alabama and one near Hamilton, Ontario, Canada). However, at this writing, it appears these two new stores will not be opened until some time after 1958.

We closed two small junior stores during the year (Mount Vernon, Washington and Shamokin, Pennsylvania). The annual volume of these two stores combined was less than $400,000. We also closed two small appliance stores

during the year (annual volume of the two appliance stores combined was about $300,000).

The stores in operation at January 31, 1958 are listed on the first page of this report, consisting of 18 major department stores, 40 so-called "branch" stores and 6 small appliance stores.

ADDITIONS AND IMPROVEMENTS TO PHYSICAL PROPERTIES

The Company invested $6,440,533 during the year for improvements to existing stores and for new stores. (Last year the comparable expenditures amounted to $9,876,679). The amounts spent for the year are summarized as follows:

For modernizing existing properties	$3,839,219
For new stores and expansion of existing stores	2,601,314
	$6,440,533

The above amount of $3,839,219 includes two large items — $2,288,106 in our Jones store in Kansas City, Missouri and $954,345 in our McAlpin store in Cincinnati, Ohio. The Jones store project involves modernizing the entire store (which is the largest store we operate). The project will be completed in 1958. The work on the McAlpin store involved extensive repairs and modernization of the building we own.

The expenditures of $2,601,314 for expansion, consist principally of amounts spent in connection with seven new branch suburban stores (five of these opened for business during the past eighteen months — two are not yet opened).

Depreciation charged to operations for the year amounted to $2,387,850, compared with $1,972,987 last year.

Apart from the amounts described above, $517,770 was expended during the year (and charged to operations) for repairs and maintenance.

FINANCING OF EXPANSION

During the last nine years, the following amounts were expended for new stores and improvements:

Year Ended	Capital Expenditures
January 31, 1950	$ 1,638,015
January 31, 1951	2,554,076
January 31, 1952	4,080,571
January 31, 1953	1,914,607
January 31, 1954	1,797,935
January 31, 1955	3,368,916
January 31, 1956	4,723,342
January 31, 1957	9,876,679
January 31, 1958	6,440,533
	$36,394,674

During those same nine years, the long term debt was increased $9,772,820 (from $5,675,000 to $15,447,820). The above nine-year expansion was financed out of earnings to the extent of $26,621,854 and by increase in long term debt to the extent of $9,772,820.

During the latest year, the Company continued its practice of placing mortgages on newly acquired real estate or major improvements. The Company also took down in March, 1957 the remaining $1,500,000 under the three year credit agreement with three banks — which was arranged in January, 1957.

During the year, the following amounts were added to long term debt:

Mortgages:

On property in Kansas City, Mo.	$1,028,000
On property in Toledo, Ohio	825,000
On property in Montgomery, Ala.	500,000
	$2,353,000
Borrowed remaining balance under three year credit agreement with three banks	1,500,000
Total addition to long term debt	$3,853,000

All required payments of long term debt were made during the year, including $1,300,000 of the three year term loan from banks, and $250,000 against the twenty year loan from Metropolitan Life Insurance Company.

The net result of the above transactions during the year was that the long term debt of the Company was increased during the year from $13,892,909 to $15,447,820, an increase of $1,554,911.

Regarding short term loans, the Company borrowed $3,000,000 from banks during the early part of the year in connection with its seasonal cash requirements, and paid off these loans prior to the end of the year.

OUR NEW STORES HAVE GROWN

It is interesting to note how our new stores have grown in sales and profits, as demonstrated by our experience over the past ten years. On the average, each new store continues to grow in sales and profits for at least six years after it opens.

We took the records of the stores operating on January 31, 1958 and recapitulated the growth of each such store opened or acquired during the last decade. There were 22 such stores with at least two full years of operation completed. For each of the 22 stores we set down the sales and net profit for its first full year of operation, its second year of operation, its third, fourth,

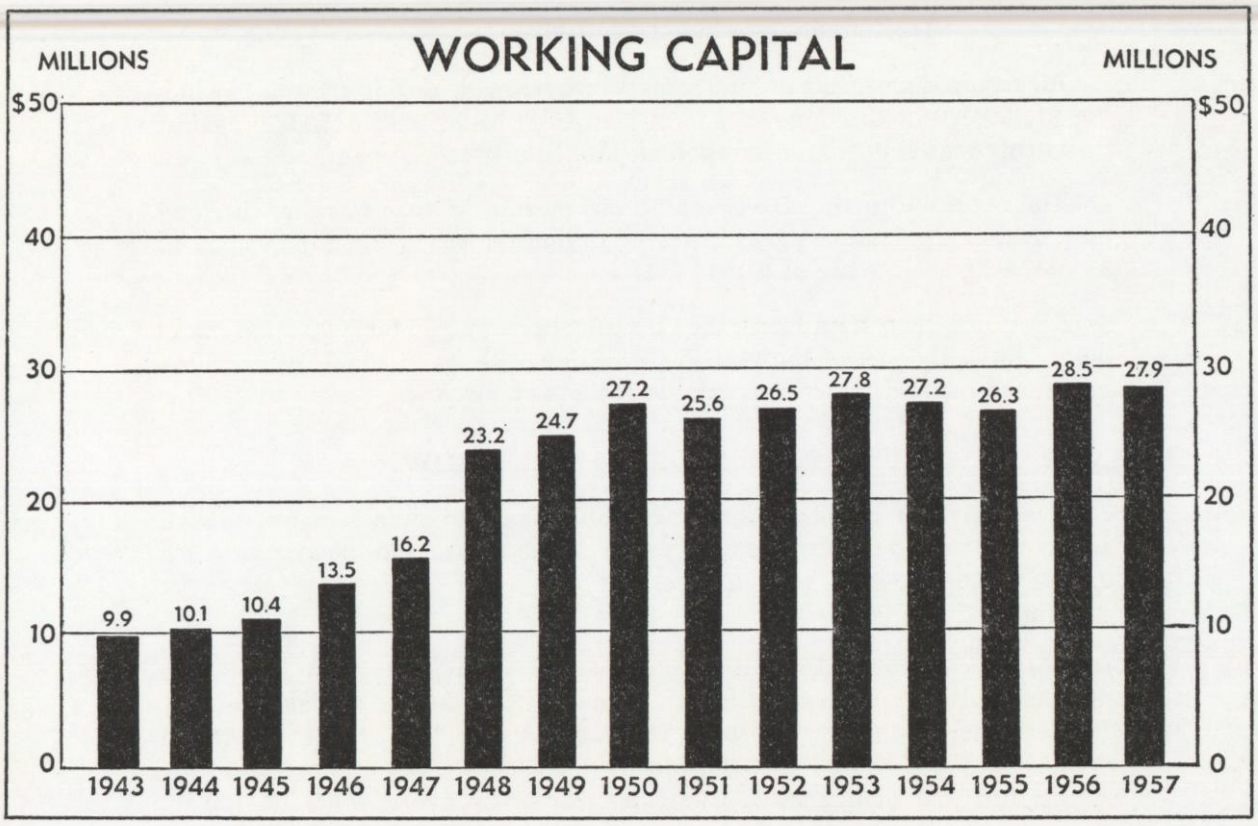
fifth and sixth. With the first full year stated as 100%, the average progression for the 22 stores has been as follows:

	Sales	Net Profits
First year	100%	100%
Second year	115	121
Third year	132	157
Fourth year	135	158
Fifth year	133	164
Sixth year	140	174

As shown above, the average has been that a new store in its sixth year has increased its sales by 40% and its net profit by 74% — over the level of its first year of operation.

WORKING CAPITAL

The working capital at the end of the year amounted to $27,946,714 — down about 2% or $536,619 from the year ago figure of $28,483,333. The chart below shows the working capital for each of the last fifteen years.



PROFIT SHARING PLAN AND PENSION PLAN

One of our most valued assets is the acceptance by the public which our stores have earned in the communities they serve. On the first page of this report is a list of our stores which gives the year each of the eighteen major stores first opened for business. Five of the eighteen have been operating for over 100 years, and the average of the eighteen stores is 85 years.

One of the most important factors in earning and keeping such acceptance, is the *people* who work for the Company. Satisfied people handle their jobs best. The Profit Sharing Plan which the Company started four years ago has been enthusiastically received by our people, about 2,800 of whom now participate in the Plan.

Summarized briefly, the Plan is one under which our people contribute up to 6% of their salary, and the Company makes a contribution into the Plan, geared to profits.

During the year, our people contributed a total of $609,009 of their own money into the Plan. A year ago the comparable figure was $560,763. The Company contribution for the year amounted to $209,349, compared with $204,577 a year ago. Each participant's account was credited this year with approximately thirty-five cents from the Company for every dollar contributed by the individual. (A year ago the comparable figure was thirty-six cents.)

The contributions from our people are invested by an independent Trustee in various conservative investments. The Company contributions are invested by the Trustee in Mercantile Stores stock, purchased in the open market. During the year, 12,176 shares were so purchased by the Fund — with such purchases spaced out over a period of nine months of the year. At January 31, 1958, the market value of the funds held by the Trustee was as follows (part of the contributions for the year did not reach the Trustee until after January 31, 1958):

From contributions by our people	$1,934,223
From Company contributions—	
(32,194 shares of Mercantile Stores stock and cash of $3,650)	647,530
Total	$2,581,753

The Pension Plan of the Company was continued without change. It has been in operation for thirteen years. There were 1,384 of our people covered by this Plan at January 31, 1958. A year ago the number of people covered was 1,221. The Company pays the cost of this Plan which amounted to $292,477 compared with $256,371 for the preceding year.

STOCK OPTIONS

On December 16, 1952, stock options were granted to 38 officers and key people for a total of 27,500 shares. The option price was $20.41. Further details of these options are given in the accompanying Proxy statement. These options expired December 15, 1957.

On December 5, 1957, the Board of Directors acted to extend for two years for each active employee that portion of his option not yet exercised, but this action by the Board of Directors is subject to approval by stockholders at their next annual meeting. The terms of the extended options are, in general, the same as in the original options. The option price is unchanged at $20.41. The extended options numbered 18 and cover a total of 11,125 shares.

The following summarizes the transactions:

		Number of Shares
Original options granted in 1952		27,500
Deduct:		
Options exercised to January 31, 1957	10,325	
Option cancelled	300	
		10,625
Options in force at January 31, 1957		16,875
Deduct:		
Options exercised during the year ended January 31, 1958	4,550	
Options not extended	1,200	
		5,750
Balance, options extended for 2 years		11,125

The above options for 11,125 shares are covered by stock held in the Company's treasury, earmarked for such options. This stock in treasury was purchased in the open market in 1952 and held for this purpose.

CURRENT SALES TREND

This report is being written near the end of March. The current sales trend is poor. Sales for the two months — February and March — are about 1% behind last year (comparable stores are behind about 4%). Easter is two weeks earlier this year, than a year ago. A large portion of the pre-Easter business will fall in March this year — a year ago most of the pre-Easter business occurred in April. We expect the April sales comparison will be far from good.

We are watching our inventory closely and believe the inventory is in balance with the reduced sales trend (the inventory on March 22nd was a little

more than 5% under a year ago). Expenses are under close scrutiny. However, since sales are the single most important factor in determining our profit, we expect the first quarter profit will be well below a year ago — how much we cannot yet tell.

If general business picks up later in the year, we are confident our sales will improve in a like ratio. Whether or not such general business pick-up will materialize, we do not know.

CAPITAL STRUCTURE

Mercantile Stores has only one class of stock — the common stock. The number of shares outstanding has remained virtually unchanged for a long period of years. No new stock has been issued during the expansion of the Company from around $25,000,000 of sales to over $150,000,000.

At the end of the year the common stockholders' investment amounted to $46,061,722. The total capital structure (common stockholders' investment plus long-term debt) amounted to $61,509,542 and about 75% of this was in the common stockholders' investment.

For many years our balance sheet carried a surplus described as "Surplus prior to February 1, 1935". All changes in this surplus since February 1, 1935 have been "capital" surplus transactions. Accordingly, it was decided that a more simple and more easily understood presentation of our balance sheet would be to designate this as Capital Surplus.

For further simplification and clarification, the old Surplus Reserve for Inventories and Contingencies was transferred to "earned surplus". This reserve was set up in 1947 out of net profit in the amount of $1,500,000. Back in 1947, many companies in our industry set up similar reserves but practically all have long since closed them out. The Securities and Exchange Commission rules have also changed in the past 10 years regarding the use of such reserves. The Board of Directors concluded it was pointless to continue to maintain this segregation of surplus and accordingly acted to close out the reserve.

VARIOUS

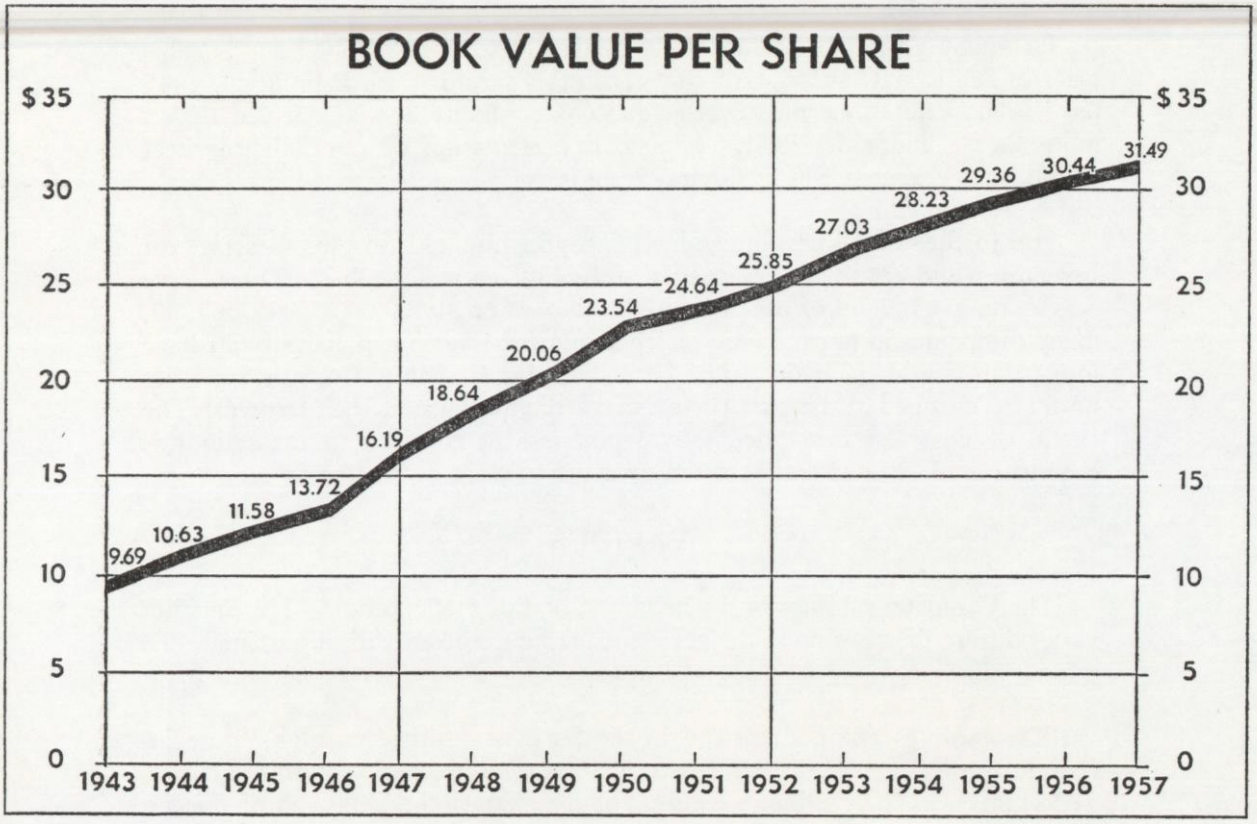
The Company employs in the neighborhood of 7,100 people. This number varies during the seasons of the year, but the figure given will approximate the normal number of people in our Company.

The earnings retained for use in the business (earned surplus) were increased during the year from $31,654,763 to $34,738,566. Of this increase, $1,583,803 was the retained earnings for the year, and $1,500,000 of this in-

crease came from the closing out of the old surplus reserve (details are given in the paragraph captioned Capital Structure).

Customers accounts receivable amounted to $23,586,805 at January 31, 1958. The total receivables were $852,880 more than a year ago — up about 4%. Installment accounts increased about $1,612,000, but regular charge accounts were lower by about $759,000. The Company continued to sell a large part of its customers' installment contracts to a bank under an arrangement which has been operating for many years. The reserve for doubtful accounts continues to be a generous one, in the opinion of management, and the receivables are considered to be in satisfactory condition.

The book value per share of common stock was $31.49 at January 31, 1958, computed on the 1,462,874 shares outstanding at the end of the year. The book value per share of common stock has been increasing steadily as shown by the chart below which gives the per-share value at the end of each year for the past fifteen years.



Mr. A. D. Churbuck retired from our Board of Directors on February 6, 1958, but is continuing to serve the Company as Vice-President. Mr. Churbuck joined the Company in 1935 and was elected a Director in 1951. The Company greatly appreciates that he is continuing as a Vice-President and is grateful to him for his service as a Director.

Mr. Ralph S. Stillman succeeded Mr. Churbuck on our Board. Mr. Stillman is President of Grace National Bank of New York. He joined the Grace Bank in 1951 as Vice-President of the Bank. Prior to that he spent over twenty-five years in the banking business, including service in the Far East and South America.

The financial statements for the year and the report of our independent auditors are given on the succeeding pages. Following that is a summary of the highlights of our operations for the past twenty years together with a ten year comparison of balance sheets.

As we commented earlier, the people in our Company are a vital factor in our operation. Without their loyal cooperation we could accomplish but little. We are grateful for that cooperation. We are proud of our good relationships with the thousands of vendors who supply us with good merchandise, and extend our thanks to them.

Respectfully submitted,

F. G. KINGSLEY
Chairman of the Board

HAROLD W. JOCKERS
President

MERCANTILE STO

(a Delaware

AND SUBSIDIARY

CONSOLIDATED BALANCE

ASSETS

Current Assets:			
Cash			$ 6,910,994
Accounts receivable—			
Customers accounts—			
Regular retail terms		$ 9,510,441	
Installment terms, including installments maturing after one year		1,390,044	
Equity in installment accounts sold (the uncollected balances of accounts sold amounted to $12,686,320)		2,305,821	
Other accounts		631,960	
		$13,838,266	
Less—Reserve for doubtful accounts		1,346,512	12,491,754
Merchandise inventories, priced at the lower of cost or market			24,511,645
Unexpired insurance, prepaid rent, etc			1,238,460
TOTAL CURRENT ASSETS			$45,152,853
Fixed Assets:			
Land, at cost		$ 5,553,546	
Buildings owned, buildings on leased ground and leaseholds, and building improvements, at cost	$28,950,749		
Less—Reserve for depreciation	7,601,092	21,349,657	
Store fixtures, etc., at cost	$11,450,572		
Less—Reserve for depreciation	4,790,947	6,659,625	33,562,828
			$78,715,681

NOTE: Under the terms of the agreement covering the $3,900,000 bank loans shown above under profit after that date. For the two years ended January 31, 1958, accumulated undistributed contains provisions relating to the payment of dividends but they are less restrictive.

RES COMPANY, INC.

corporation)

COMPANIES

SHEET – JANUARY 31, 1958

LIABILITIES

Current Liabilities:

Accounts payable		$ 7,011,651
Accrued taxes (other than Federal income), compensation, rent, etc.		4,751,885
Reserve for Federal income taxes		3,462,916
Current maturities of long-term debt (including $429,687 on mortgage notes payable)		1,979,687
TOTAL CURRENT LIABILITIES		$17,206,139

Long-Term Debt:

Notes payable—		
Insurance company, due $250,000 annually	$ 2,250,000	
Banks, due January 31, 1960	3,900,000	
Mortgage notes payable, due in installments over the life of each mortgage, most of which are twenty-year mortgages	9,297,820	15,447,820

Capital Stock and Surplus:

Common stock, par value $3.66⅔ per share—		
Authorized and issued, 1,475,499 shares	$ 5,410,163	
Less—12,625 shares held in treasury, of which 11,125 shares are reserved pending stockholders' approval of extension of stock options granted at $20.41 per share	46,291	
Outstanding 1,462,874 shares	$ 5,363,872	
Capital surplus	5,959,284	
Earnings retained for use in the business (earned surplus) (see Note)	34,738,566	46,061,722
		$78,715,681

long-term debt, payment of cash dividends after January 31, 1956, is restricted to 70% of the net earnings of $801,545 are free of this restriction. The insurance company loan agreement also

MERCANTILE STORES COMPANY, INC.

AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS

For the Year Ended January 31, 1958

PROFIT AND LOSS

Net sales, including sales of leased departments		$153,994,341
Cost of goods sold, selling, operating and administrative expenses, including depreciation of $2,387,850		146,329,361
Operating profit		$ 7,664,980
Other income (net):		
Carrying charges on installment accounts, and miscellaneous net income	$1,795,764	
Less—Interest expense	1,283,106	512,658
Profit before provision for income taxes		$ 8,177,638
Provision for income taxes:		
Federal taxes	$3,830,000	
State and Canadian taxes	352,000	4,182,000
Net profit for the year		$ 3,995,638

CAPITAL SURPLUS

Balance, January 31, 1957	$ 5,883,295
Excess of proceeds over par value of 4,550 shares of common stock sold during the year under options granted in 1952 at $20.41 per share	75,989
Balance, January 31, 1958	$ 5,959,284

EARNINGS RETAINED FOR USE IN THE BUSINESS (EARNED SURPLUS)

Balance, January 31, 1957	$ 31,654,763
Add:	
Net profit for the year	3,995,638
Transfer of surplus reserve for inventories and contingencies, originally provided in 1947 out of profits	1,500,000
	$ 37,150,401
Dividends declared on common stock—$1.65 per share	2,411,835
Balance, January 31, 1958	$ 34,738,566

ARTHUR ANDERSEN & CO.

67 BROAD STREET
NEW YORK 4

April 3, 1958.

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS,
MERCANTILE STORES COMPANY, INC.:

We have examined the consolidated balance sheet of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1958, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1958, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

MERCANTILE STO
AND SUBSIDIARY

TWENTY YEAR COMPARISON OF SALES,

Fiscal Year Ended January 31	Net Sales	Profit Before Income Taxes	Income Taxes	Net Profit	Net Profit Per Common Share (After 10 for 1 Splitup in 1945)
1958	$153,994,341	$ 8,177,638	$4,182,000	$3,995,638	$2.73
1957	148,773,457	8,086,964	4,060,000	4,026,964	2.76
1956	138,785,704	8,036,717	4,120,000	3,916,717	2.70
1955	130,366,021	6,970,553	3,420,000	3,550,553	2.45
1954	130,882,985	6,933,491	3,410,000	3,523,491	2.43
1953	128,603,624	7,080,850	3,620,000	3,460,850	2.39
1952	124,699,947	6,442,260	3,322,000	3,120,260	2.10
1951	125,427,006	9,397,003	4,290,000	5,107,003	3.45
1950	112,607,776	5,932,129	2,325,000	3,607,129	2.42
1949	119,091,512	8,369,725	3,243,000	5,126,725	3.44
1948	113,012,702	8,444,538	3,286,000	5,158,538	3.47
1947	103,007,184	10,800,760	4,618,000	4,682,760**	3.14
1946	74,407,149	5,894,901	4,084,000	1,810,901	1.21
1945	59,668,304	6,633,941	4,854,000	1,779,941	1.18
1944	50,277,807	4,700,875	3,276,760	1,424,115	.94
1943	41,173,113	3,340,264	2,118,645	1,221,619	.82
1942	34,867,853	1,912,941	812,165	1,100,776	.73
1941	29,509,394	939,991	278,548	661,443	.43
1940	27,619,565	274,646	72,059	202,587	.11
1939	25,467,539	*486,264**	3,850	*490,114**	*.36**

* Italics indicate loss or deficit.

** After deducting special provision of $1,500,000 for possible future decline in market

RES COMPANY, INC.

COMPANIES

EARNINGS AND RETAINED EARNINGS

DIVIDENDS PAID				
Common				
Per Share	Amount	Preferred Amount	Retained Earnings (Earned Surplus)	Book Value Per Common Share (After 10 for 1 Splitup in 1945)
$1.65	$2,411,835	$ ——	$34,738,566	$31.49
1.65	2,402,442	——	31,654,763	30.44
1.55	2,248,742	——	30,030,241	29.36
1.25	1,809,999	——	28,362,266	28.23
1.25	1,809,999	——	26,621,712	27.03
1.25	1,836,849	4,375	24,908,220	25.85
1.00	1,470,404	17,500	22,915,344	24.64
1.00	1,471,295	19,240	21,651,863	23.54
1.00	1,481,220	22,040	18,035,395	20.06
1.00	1,481,220	24,701	15,931,526	18.64
1.00	1,481,220	25,676	12,310,722	16.19
1.00	1,481,220	25,676	8,659,080	13.72
.25	370,305	25,676	5,483,216	11.58
.25	370,305	28,451	4,068,296	10.63
.25	368,930	36,176	2,687,111	9.69
.25	361,255	37,133	1,668,102	9.20
.20	290,444	40,187	844,871	8.58
.20	289,612	41,732	74,726	8.07
—	—	42,504	*255,373**	7.85
—	—	46,907	*415,456**	7.59

value of inventories and other contingencies.

MERCANTILE STO

AND SUBSIDIARY

TEN YEAR COMPARISON OF

ASSETS	January 31, 1958	1957	1956	1955
Cash and Marketable Securities..	$ 6,910,994	$ 7,048,251	$ 7,129,398	$ 8,928,401
Receivables, less Reserve.....	12,491,754	13,302,895	10,020,053	11,519,124
Merchandise Inventories	24,511,645	24,794,615	24,115,864	21,342,757
Prepaid Expenses	1,238,460	990,185	886,610	1,213,341
TOTAL CURRENT ASSETS....	$45,152,853	$46,135,946	$42,151,925	$43,003,623
Fixed Assets (Net).....	33,562,828	29,794,822	21,892,498	18,996,955
	$78,715,681	$75,930,768	$64,044,423	$62,000,578
LIABILITIES				
Current Liabilities	$17,206,139	$17,652,613	$15,837,947	$15,787,889
Long-Term Debt	15,447,820	13,892,909	5,562,865	4,993,357
Deferred Income	—	—	—	336,878
Capital Stock	5,363,872	5,347,188	5,326,105	5,309,330
Surplus Reserve	—	1,500,000	1,500,000	1,500,000
Surplus	40,697,850	37,538,058	35,817,506	34,073,124
	$78,715,681	$75,930,768	$64,044,423	$62,000,578
Net Working Capital.....	$27,946,714	$28,483,333	$26,313,978	$27,215,734

RES COMPANY, INC.
COMPANIES

CONDENSED BALANCE SHEETS

January 31,					
1954	*1953*	*1952*	*1951*	*1950*	*1949*
$ 6,875,318	$ 5,795,896	$ 6,200,137	$ 4,787,324	$ 4,739,075	$ 6,434,661
10,913,772	11,040,474	9,549,452	10,087,958	8,977,615	8,534,538
23,015,160	23,574,168	22,796,904	28,500,036	19,284,683	18,028,742
1,086,628	1,184,306	1,329,766	1,362,356	1,312,669	1,233,039
$41,890,878	$41,594,844	$39,876,259	$44,737,674	$34,314,042	$34,230,980
17,353,654	17,070,625	16,610,429	13,880,381	12,685,167	12,345,179
$59,244,532	$58,665,469	$56,486,688	$58,618,055	$46,999,209	$46,576,159
$14,051,103	$15,046,652	$14,261,602	$17,516,920	$ 9,625,259	$11,054,879
5,611,194	5,638,334	5,526,516	5,530,000	5,355,000	5,675,000
440,335	552,075	440,566	576,612	504,781	395,980
5,309,330	5,309,330	5,660,163	5,660,163	5,721,140	5,761,140
1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
32,332,570	30,619,078	29,097,841	27,834,360	24,293,029	22,189,160
$59,244,532	$58,665,469	$56,486,688	$58,618,055	$46,999,209	$46,576,159
$27,839,775	$26,548,192	$25,614,657	$27,220,754	$24,688,783	$23,176,101